

June 21 Compromise Proposal — PIMS results

This memo presents the PIMS results for the latest compromise proposal. This proposal is based on the House bill, including the House transition provisions, with the following modifications:

- Effective date deferred to 2008,
- Mortality and bond quality strengthened,
- Smoothing/averaging period shortened,
- Rules for determining which plans are at-risk modified, and
- Assumptions for at-risk plans modified (two versions included – see page 4).

With the exception of these changes, the proposal modeled is identical to the House bill. Details on these modifications can be found on page 3. All results reflect the standard PIMS methodology as described in our March 30th memo. In addition to the requested results, an additional scenario is included under which the at-risk provisions are disregarded entirely to illustrate the overall impact of the at-risk provisions.

A summary of contributions and claims (on a present value basis) follows.

Present value of mean PIMS results 2007 - 2016

\$ in billions	Contributions			Claims		
	Mean	Mean as a percentage of		Mean	Mean as a percentage of	
		Current law	Current law CB forever		Current law	Current law CB forever
Current law	\$1,242	N/A	109%	\$12.8	N/A	78%
Current law - if corporate bond relief is extended permanently	\$1,144	92%	N/A	\$16.5	129%	N/A
Compromise proposal						
▪ Version 1 - Load applies for all at-risk plans	\$1,231	99%	108%	\$14.9	116%	90%
▪ Version 2 - At-risk load never applies	\$1,220	98%	107%	\$15.0	117%	91%
Disregarding at-risk provisions entirely	\$1,207	97%	106%	\$15.2	119%	92%

The above results do not reflect the impact of provisions being considered which, if included would increase claims by billions of dollars. These potential provisions include:

- Permitting a plan to use its own mortality table,
- Providing funding relief for airlines or other critical plans,
- Increasing payments from PBGC to certain airline pilots,
- Providing funding relief to DoD contractors,
- Exempting small plans from at-risk provisions, and
- Exempting "fully funded" plans from various provisions.

By not reflecting these provisions, the effectiveness of the proposal is overstated.

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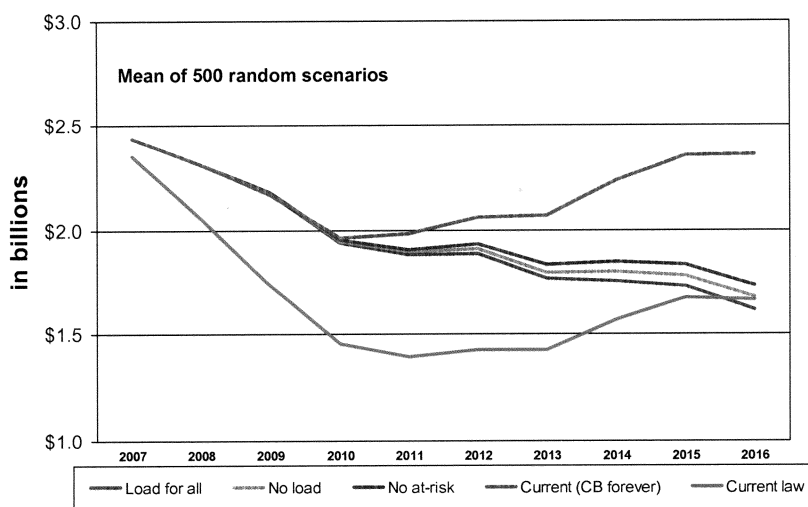
On a PV mean claims basis, the proposal results show very little difference between the two versions (with and without the at-risk load). This is because the overall effectiveness of the at-risk provision is diminished as a result of:

- Limiting the number of plans that are subject to at-risk funding, and
- Providing a five-year phase-in period before the at-risk assumptions are fully effective.

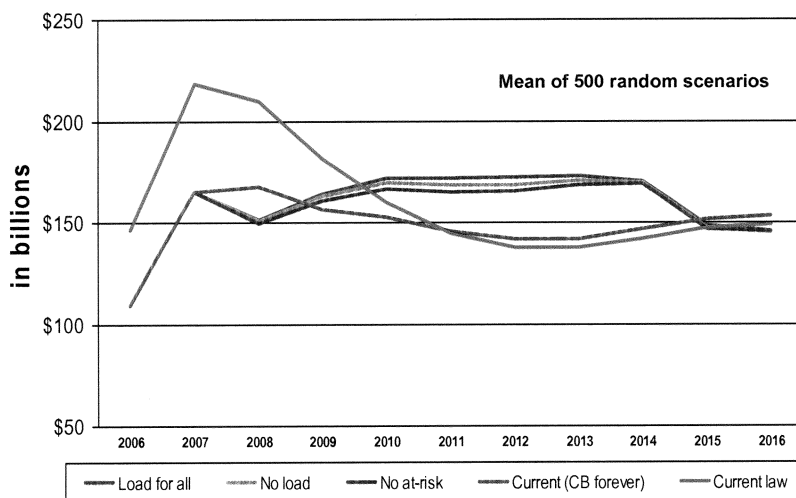
Results should not be interpreted to imply that the load does not matter.

The following graphs illustrate mean claims and required contributions on a year-by-year basis. The focus should be on the relative differences between the lines, and not the actual amounts.

Claims



Minimum Required Contributions



A summary of how the proposal differs from the House bill follows:

Basic rules

- Effective date — 2008 instead of 2007.
 - Pre-effective date current liability discount rate — High quality corporate bond
 - Pre-effective date mortality — Treasury's proposed change in the current liability mortality table takes effect in 2007
- Mortality — RP2000 projected to ten years beyond each valuation date instead of projecting only to valuation date.
- Bonds underlying modified yield curve — High-quality bonds instead of all investment-grade bonds.
- Assets — Two-year averaging permitted instead of three. 10% corridor still applies.
- Discount rate smoothing — Two-year smoothing of discount rate (50/50 weighting) instead of three-year (50/35/15 weighting).

At-risk trigger

- Two-part test:
 - Prong 1 - Funding percentage using at-risk target is below 70%^a, and
 - Prong 2 - Funding percentage using ongoing target is below:
 - 65% in 2008
 - 70% in 2009
 - 75% in 2010
 - 80% in 2011 and later years

For both calculations, the funding percentage is determined using actuarial value of assets reduced by the full credit balance.

At-risk assumptions^b

- Retirement age
 - Most valuable if employee is within 11 years of retirement (current year plus next 10 years).
 - Regular assumption (selected by actuary) for participants more than 11 years away from retirement.
- Load factor — Applies only if plan under 70% at-risk funding percentage in two of most recent three years.

Due to time constraints, this provision was not modeled. Instead, results are presented two ways:

- Version 1 - The at-risk load applies to all at-risk plans, and
- Version 2 - The at-risk load never applies.

If the above provision had been reflected, the result would be in between the results shown, most likely closer to Version 2.

^a For this part of the test, it was assumed that the at-risk load is included in the calculation of the at-risk liability for all plans. Subsequent information received after the modeling was completed indicates that may not be the intent. If the load is excluded from this part of the test, fewer plans will be considered at-risk.

^b For purpose of determining funding target and target normal cost used to determine funding requirement.